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State of Vermont  
OFFICE OF THE GOVERNOR

Governor's Budget Address  
Building Generations of Opportunity  
By Advancing an Agenda of Affordability  
Tuesday, January 17, 2006

*Mr. President, Madame Speaker, Members of the General Assembly, fellow Vermonters:*

The efforts of our state's employers, and our commitment to policies that promote economic growth and job creation, have helped Vermont's economy recover from the deep recession of 2002.

Incomes are rising, thousands of new jobs have been created and our unemployment rate is currently the third lowest in the nation.

Economic growth and a focus on workforce training have also made possible steady and significant reductions in the "welfare to work" caseload, helping us to achieve one of the lowest poverty rates in America.

Our dedication to responsible growth and affordable housing has resulted in exceptional success stories like the redevelopment of the Winooski downtown that will add around 150 affordable homes and new commercial space to this important region.

Vermont is managing explosive Medicaid cost growth, fighting corrosive drug abuse in our communities, replacing antiquated facilities for neighbors suffering from severe mental illness and correcting unacceptable conditions in our prisons.

We have brought focus to the management of chronic disease as the primary cost driver in a medical system where costs are out of control.

We have invested in the safety of our communities, increased our commitment to highway and bridge maintenance, and kept our promise to boost spending each year for higher education.

And with the commitment we have made to the Agencies of Natural Resources and Agriculture in programs like my Clean and Clear initiative, dramatic improvements are underway to assure the long-term environmental quality of our state.

We can be proud of all that we have done together.

I'm especially proud that we've done all this, and more, with balanced budgets and replenished stabilization reserves; we've done it without increasing the tax burden on working Vermonters or borrowing beyond our means; we've done it under the cloud of shrinking federal resources; and we've done it while strengthening Vermont's favorable AA+ bond rating.

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I come before you today to present a disciplined and balanced budget that leaves all of our rainy day funds full and provides for a \$54 million capital budget that attends to core infrastructure requirements. Notably, this budget also adheres to the recommendation of the Capital Debt Affordability Advisory Committee to borrow no more than \$45 million. We must continue to reduce the debt to be repaid by future generations.

Beyond these details, however, this budget is a statement of priorities, structured to reconcile two distinct, yet interwoven objectives: advancing an agenda of affordability for all Vermonters, while addressing the long-term challenges that face state government.

For working Vermonters, the affordability of Vermont is paramount. Costs continue to rise much faster than the average family's ability to pay for them and are consuming a larger portion of working Vermonters' paychecks with every passing year. In my State of the State message, I laid out a series of proposals to address the affordability of Vermont – to reform our health care system, curb skyrocketing property tax bills, and put owning a home and getting a college education within reach of the average family.

But we cannot make Vermont affordable if we do not make state government sustainable. We must be more than stewards of the state budget working year to year to make ends meet—we must be champions of progress.

We must ease the tax burden on working Vermonters by restraining spending programs that drive tax increases. We must make investments in our future, and we must take action now to rethink, retool and revitalize state government into a dynamic, digital entity – vigorous and agile for the modern economy.

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Making government more sustainable requires sound strategic planning and a commitment to transforming it into a 21<sup>st</sup> Century enterprise.

After nearly two years of comprehensive reviews of our government systems, the Vermont Institute on Government Effectiveness that I appointed released a report detailing twenty separate recommendations that, when implemented, could deliver taxpayers between \$20 and \$30 million in annual savings.

At my request, the Institute conducted extensive outreach and sought much of its guidance from frontline state employees themselves. Not surprisingly, many of the most

valuable suggestions came from employees with years of experience who are seeking better ways to serve their fellow Vermonters.

The report said to make government sustainable for the next generation we have to start thinking and acting like a leader in the new economy by focusing on system-wide – or “enterprise” – improvements in technology and human resources planning. These recommendations have formed the basis of my Strategic Enterprise Initiative, a plan to prepare for, and invest in, more efficient technology systems and state workforce training.

Making use of an upcoming surge in retirement that presents a once in a generation opportunity to transform state government can finance much of this effort.

If we are to succeed in reversing the flow of young Vermonters out of our state, and advancing the flow of jobs into our state, we must make government more effective and less costly through the use of technology.

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We must also do more to make the Medicaid program sustainable.

Last year, a \$20 million cash infusion was required to prop up this important program. Today, thanks to our first in the nation Global Commitment to Health, we have no need for a mid-year cash infusion.

In addition, the work of my administration and key lawmakers like Representative Heath and Senator Bartlett have produced an outcome of which we should all be very proud: based on current projections there will be no Medicaid shortfall in the next fiscal year.

Nevertheless, we cannot declare victory in the struggle to control the Medicaid entitlement. We must keep working together, as we did with the Global Commitment, to enact additional reforms of this important program.

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As I talk to Vermonters, one of the most frequent refrains I hear is about making health care affordable for working families. Like so many other line items in the family budget, health care costs have been rising faster than the average family’s ability to pay for them.

Indeed, it is the cost of affordable coverage that precludes many Vermonters from having health insurance. It is important that this General Assembly stay committed to working with my administration to find ways to bend the costs of care and put affordable health care in the hands of the uninsured.

I want to thank you again for taking up the Consensus Health Care Plan. I believe, as many of you do, that passing these commonsense initiatives early in the session will send an important message to the people of Vermont and serve as a positive starting point for further discussion.

In this same spirit of bipartisanship, I hope you'll consider the plan I announced in December to provide all Vermonters with access to an affordable, basic health insurance plan.

After a wide-ranging public input process, I have developed a comprehensive health care reform plan that achieves our shared goals. Altogether, I am proposing that Vermont invest \$29 million annually in reforms that achieve universal access to affordable insurance and will begin to contain cost increases for those with insurance.

For most of Vermont's uninsured, however, the most frightening health risk is the threat of catastrophic accident or illness. At costs ranging from \$175 to as little as \$9 per month, my plan would restore to Vermonters the opportunity to protect themselves against catastrophe and obtain core primary and preventive health services at no out of pocket expense.

Uninsured Vermonters between 150 and 300% of the federal poverty level would be eligible for subsidies to lower their premiums and deductibles, so everyone would pay based on what he or she can afford.

My plan also offers initiatives to empower consumers, improve health quality, reduce the Medicaid cost shift, lower medical malpractice premiums, and confront key drivers of medical inflation.

My plan also recognizes that we should pursue policies that allow Vermonters to import more affordable plans from other states.

And most importantly, my plan allows Vermonters to keep their family doctor. Health care decisions are best made between the patient and doctor inside a doctor's office, not by politicians and bureaucrats inside a faceless bureaucracy.

Specifically, for FY2007, I propose \$6.4 million for premium assistance and other subsidies, \$6.2 million for the Chronic Care Initiative; a \$5 million annual increase for Medicaid reimbursements to family practice, internal medicine and pediatric physicians; \$700,000 for Electronic Medical Records; \$500,000 for other technology projects including Common Claims administration, Consumer Price and Quality Information, and multi-payer data collection; \$300,000 for my Fit and Healthy Kids program; and \$100,000 for healthy aging.

My plan achieves universal access and will help make health care more affordable for every Vermonter; it does not over-extend the state beyond what we can afford; it will enhance—not harm—the business climate; it works comfortably within the limits of the Global Commitment; and it can be implemented without new taxes.

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It is important for us to recognize that the tax burden on Vermonters is already too high—particularly the burden of property taxes.

That is why I have proposed to cap growth in property tax bills so that taxes cannot rise faster than growth in the paychecks of working Vermonters.

Since Act 60, the cost of public education has grown 6% per year—more than double the rate of inflation—while the school census has dropped by about 1% per year. This trend must change if we want taxpayers to provide sustained, long-term support for increases in education spending.

As I have outlined, my plan to reduce the burden of property taxes has several components. First, I want to link growth in property tax bills to the rate of inflation.

If we want to get serious about curbing the growth of tax bills, we need to engage communities in a dialogue about sustainable spending increases in education. We need to reconnect voters to their schools.

The second component of my property tax relief plan is a push for more transparency in spending and performance data for each school. These data should be available to parents and voters prior to budget votes.

Third, in addition to my plan to repeal property taxes on working farms, I again recommend that we cap changes in the Common Level of Appraisal to the 90<sup>th</sup> percentile of CLA increases for FY2008. This important change will temper rapid fluctuations in tax burdens due to increases in property values.

Finally, we should adopt a series of changes to restructure and stabilize the income sensitivity program in four ways to make it more equitable and reconnect the voter to school spending in his or her town.

The first change is to accept the Senate's proposal of last year and fix the percentage of income associated with prebates to 2%. This proposal already has bipartisan support as a simple and fair way to treat income in the property tax calculation.

The second change is to limit prebates to an amount based on the average statewide per pupil spending level; this measure will help towns that spend below the statewide average and now must subsidize greater than average expenditures in other towns.

The third change is to simply maintain the income sensitivity program at its current level of incomes up to \$75,000. The scheduled broadening of the program would allow income sensitivity payments to households making in excess of \$100,000 per year. By maintaining the current level we keep statewide rates lower for all property taxpayers.

And the final change is to close loopholes in the income sensitivity program that allow wealthy households to receive large prebate and rebate checks. The current system is not fair to working Vermonters just struggling to get by.

Taken together, these proposals can reduce the statewide property tax by 4 cents in 2007, with tens of millions more in savings in 2008. These are important measures to make Vermont affordable for all Vermonters.

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We also must address the long-term underfunding in the Teachers' Retirement System—a problem I have long recognized. That is why I propose an additional \$3.2 million be used to augment our base expenditure of \$24.4 million and that we place it in the first position for any additional resources available through a FY2007 waterfall.

Further, I am teaming with Treasurer Spaulding to establish the principle that teachers' pensions are a legitimate expenditure from the Education Fund. This will be an important step in keeping the promise to teachers of sound funding for pensions and retirement health benefits, without unfairly deferring the burden to future generations. The Treasurer and I have agreed to form a commission to review in greater detail steps we can take to secure this fund.

Let me assure teachers whose retirement is vested in this system: your pensions are safe and you will not see your benefits cut; the state made a promise to you and we are going to keep it.

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To ensure that we have the high quality jobs and workers necessary to sustain a vibrant economy and ensure that prosperity grows with each generation, I am proposing Next Generation investments in the maintenance and expansion of the Green Valley—a robust, sustainable, environmental technologies sector.

These investments total \$3 million and would be allocated equally to the University of Vermont to invest in technology transfer and job creation in the field of advanced sustainable environmental technologies; to the Vermont State Colleges to invest in workforce development and skills programs that will bolster economic growth in this sector; and to the Vermont Student Assistance Corporation for programs to encourage and prepare more high school graduates to attend college.

To prepare more Vermonters with the skills to compete in our new economy, I am proposing a \$400,000 increase to the Vermont Training Program. In addition, I propose to increase the state's commitment to the Regional Development Corporations. These teams will continue to be instrumental in recruiting employers to Vermont and facilitating the growth and expansion of those already here.

On this 300<sup>th</sup> anniversary of the birth of Benjamin Franklin, a man who pioneered principles of electricity and invented the Franklin Stove, it is important for us to

remember the role energy plays in making Vermont affordable for Vermonters and in creating more and better paying jobs.

We find ourselves today with among the lowest electrical rates in the northeast, something we should seek to maintain and market as a competitive advantage. We must also look forward. I am committed to dependable, affordable and environmentally responsible energy sources. As our comprehensive approach to this issue continues, I look forward to working with legislators and other stakeholders to assure a thoughtful process for planning our energy future—a process that should accurately reflect where we are, where we want to go and what it will take to get there.

As we continue our efforts to expand the economy, we must ensure that Vermonters have affordable homes. It is a key component of my Agenda of Affordability. I expect to address this topic in more detail in the coming weeks, but I am very pleased that we are having a constructive dialogue with a variety of partners about how best to utilize our resources and make homeownership affordable for all.

Concepts I introduced in the fall - such as a land bank for housing - are being augmented with new ideas, and I am confident that we will find common ground on these issues while preserving the traditional settlement patterns that make our state such a wonderful place.

This year I am also proposing that we enhance our commitment to our historic downtowns and village centers. Vermont's Downtown Program is a true success story, as it has brought public and private partners together to strengthen communities across the state. Accordingly, on this tenth anniversary of the Downtown Program, I am proud to recommend to this Legislature that we provide an additional \$500,000 in tax credits to support work in historic buildings.

I will ask the Legislature to approve more than a half million dollars to continue to promote our state as a four-season destination. Visitor spending supports, directly and indirectly, more than 36,000 jobs. These additional dollars will be used to promote Vermont, expand successful private sector partnerships like the Cabot Cooperative and Vermont Ski Areas Association initiatives that have been so critical in promoting the Vermont Brand, and support major events like the upcoming Lake Champlain Quadricentennial in 2009.

The Quadricentennial will be an occasion to showcase our state, our history, and our heritage. It will also be an opportunity to showcase Vermont as a world-class fishing destination. Accordingly, I am recommending \$50,000 in the capital bill to begin the long overdue process of rehabilitating our public fishing access areas, and another \$50,000 to continue our efforts to restore the walleye population in Vermont.

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Vermont's opportunity to lead the world in the development and marketing of sustainable, innovative environmental technologies, businesses and services is due to our

recognition that our environment and our economy are interdependent—that's the Vermont Way.

To further this important relationship I propose to increase the general fund appropriation to the Clean & Clean Action Plan by more than a half-million dollars. This increase will provide support for watershed action planning, strengthen stream stability efforts, improve erosion control at construction sites, and provide continued assistance to farmers addressing water quality.

In the capital bill, I am proposing full funding of Clean & Clear initiatives in both the Agencies of Natural Resources and Agriculture totaling more than \$4.6 million for stream stabilization, wetland protection, stormwater assistance to towns, phosphorous removal projects and agricultural best management practices. We've also set aside \$750,000 to provide assistance to residential areas with expired stormwater permits adjacent to impaired waterways. Other clean water appropriations in the capital bill total \$5.8 million to assist communities with the treatment and protection of water.

And to help secure the future of our agricultural economy my budget includes funding for a Youth in Agriculture Program. This program will provide wages to at-risk youth interested in working the land.

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We must also maintain our commitment to good roads, strong bridges, and an improved telecommunications network if we are to succeed in making the Green Valley a reality.

The federal transportation bill that passed last year is a tremendous opportunity for Vermont. However, to enjoy all of its benefit we have to make the right choices.

With Senator Jeffords' leadership, Vermont secured in excess of \$60 million for each of the next four years. However, as with nearly all federal money, we must match the federal share. There is no debate about whether we need the federal money. We've all agreed that a well-built and well-maintained infrastructure will help employers create more good jobs. The debate is about the funding source.

Some have proposed raising the gas tax to match the federal funds. As gasoline prices approach \$2.50 a gallon, it is unfair to raise a heavily regressive tax on working Vermonters. To match the federal money, we'd have to raise Vermont's gas tax by 30% to a total of \$0.26 per gallon to generate the necessary revenue. I want to keep Vermont affordable for Vermonters; therefore, raising the gas tax is not an option.

Some fifteen years ago the state began to use Transportation Fund revenues for government spending activities that are not transportation-related. As a result, Vermont fell behind in repair and maintenance. Over the last three years, we've worked together to reduce these transfers, and we've made progress, but we must do more.

That is why I am proposing that \$14.3 million of the Motor Vehicle Purchase and Use Tax – revenue that Vermonters rightly expect to be spent on roads – be redirected to the



Transportation Fund where it belongs. Together with inflationary increases to fees, this budget will begin to cure the structural deficit that plagues the Transportation Fund and will allow us to match federal funds without raising gas taxes on working Vermonters.

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For Vermont to be the location of choice for growing companies, we must drive forward with the expansion of wireless communication and broadband systems. Ensuring that our rural communities have the cellular coverage and high speed internet access that too many of us take for granted is every bit as important as George Aiken's tireless efforts to bring electricity to those communities following the Great Depression. The technologies of tomorrow have become the necessities of today; we must do more so that our rural communities are not left behind.

To this end, my budget includes resources for the Connect Vermont project. With over \$8 million from the federal government, coupled with a contribution from the state, we can deliver a fiber optic backbone along interstate corridors to which branches can be attached for broadband service to communities, and to which cellular services can be connected to complete coverage on our primary highway arteries.

I am also proposing in the capital bill an appropriation of \$200,000 for grants that will spark the development of wireless services in rural communities.

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We are all aware that too many young Vermonters leave our state to attend college, and many will not return. Every dollar that we invest today in higher education and in retaining young Vermonters pays dividends. And we must act now. If we do not, over the next 25 years, as the number of senior citizens doubles, the number of working-age Vermonters will decline.

For the fourth consecutive budget, I am recommending increases for the Vermont State Colleges, UVM, and VSAC. This year, I propose that we increase our base higher education spending by 3.75%.

In addition, my budget includes \$3 million for start-up funding for the Vermont Promise Scholarship program—the cornerstone of my effort to make college affordable for more Vermonters and encourage our young people to stay in Vermont.

Some have suggested that we could get by with a lesser investment—I respectfully disagree. We must make this full 15-year commitment now. We must make this generation of young Vermonters our *next* generation of working-age Vermonters. Anything less would jeopardize our ability to reverse the current population trends and strengthen our economy.

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Making our communities as safe as they can be continues to be one of my top priorities. Vermont is one of the safest places to live in America; safe and peaceful communities are

part and parcel of our quality of life and our ability to recruit and retain the next generation of Vermonters.

In my first budget, three years ago, I pledged to combat the growing and dangerous blight of illegal drugs in Vermont through my Drug Education, Treatment, Enforcement and Rehabilitation—or DETER—initiative.

DETER is a comprehensive program to fight substance abuse in Vermont and is centered on the power, innovation and effectiveness of local solutions. To further our commitment, I propose to increase DETER funding by \$2.7 million—bringing our total investment in combating substance abuse to more than \$6.7 million.

Over the last three years we've placed 87 drug counselors in our middle and high schools. If you support this recommendation, we can provide an additional 65 Student Assistance Professionals, and fulfill my pledge to provide a drug counselor in every middle and high school.

This budget also provides increases for recovery centers and special services for incarcerated women. It expands adolescent and correctional treatment services, provides for drug-free transitional housing for people on the road to recovery, increases case management services through the drug courts and provides funding for an additional fifty Vermonters to receive opiate addiction treatment.

Three years ago, I pledged to fill all vacancies in the Vermont State Police. Since 2003, as their numbers have risen, the State Police have been able to place a detective in each field station, fully participate in the Vermont Drug Task Force, and put additional officers on the road to secure our highways. In fact, in 2005, the Vermont State Police made nearly 600 more DUI arrests than they did in 2004 – a 33% increase. These lifesaving stops are the direct result of having more officers on the beat.

Today, I am proposing additional funding to make good on my word to bring the State Police up to full force with 325 officers. Together, we've made an important commitment to public safety and we must never again allow vacancies to impair their ability to protect our communities.

We also need to ensure that sheriffs and municipal police departments are a strong part of the law enforcement fabric of Vermont. In addition to existing homeland security training money, I am directing the Governor's Highway Safety Program to help those departments provide top-quality highway training to their officers.

We are also extending our commitment to Vermont firefighters with a \$325,000 appropriation for the Fire Service Training Facility in Pittsford, as well as adding \$50,000 to the successful dry hydrant program for rural communities.

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In recent weeks, the punishment and treatment of sex offenders has been front-page news. While I am not pleased with the impetus for the debate, we are now having an open and robust dialogue about how the state should deal with these predators.

This budget supports my Safe Communities proposal and contains nearly a half-million dollars for the civil confinement of untreated sexual and violent offenders who have completed their prison sentences, but remain an immediate threat to the public if released.

As I announced in December, I am also proposing \$225,000 for grants to improve and increase Vermont's network of Special Investigative Units, which investigate and support the prosecution of violent and sexual crimes against children. Detectives from the State Police and juvenile investigators from the Department for Children and Families will supplement these grants.

In addition, as part of my Safe Communities package, I propose expanding our online sex offender registry and making sexual relations between school employees and students a felony.

While the debate and the policy implications have centered on the sex offenders themselves, my focus will continue to be on the victims of these horrific crimes. I want improved law enforcement and enhanced registries to prevent the first victim – I want incarceration and treatment to prevent another victim – and I want the punishment to fit the crime.

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As I announced in the State of the State Address I propose the creation of the “*Vermont Mentors!*” initiative. This is a half-million dollar program designed to capitalize on exceptional volunteer efforts to make sure that every Vermont child has a positive relationship with a caring adult. This investment will ensure proper screening, training and support for mentors, and ensure outreach to potential volunteers.

The state must also do everything possible to assure that returning soldiers have access to needed services and supports as we welcome them home.

Working through the Adjutant General's Office, and with all of our public and private partners, the state is creating an awareness and expectation among all human services agencies and programs, encouraging special measures to assist returning soldiers and their families during this time of transition.

Additionally, AHS field directors are working closely with the local family assistance staff of the Vermont National Guard to serve as a district point of contact and resource for military personnel and their families as they access services.

Also, within the area of Human Services, I am proposing several capital investments, including \$1.3 million to start the siting and design work for a new Vermont State Hospital and \$750,000 for the second phase of establishing a new prison work camp.

And to be sure that our law enforcement and public health professionals have the tools they need to protect our health and safety, I am proposing we invest \$9 million to acquire a site for new health and forensic laboratory facilities.

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Of the many lessons Hurricane Katrina taught us, it reminded us of the need for a dependable emergency management system. While we have a team of well-trained and dedicated emergency managers, they are operating out of a cramped and outmoded headquarters that is sub-standard for a prolonged major disaster.

In my capital budget, I am proposing an initial appropriation for the planning and site selection of a new, modern Emergency Operations Center that the state can rely on for all hazards.

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At the heart of this budget are the agenda of affordability and the need for us to address state government's most significant fiscal challenges—including the cost of state government itself.

This budget is, as I stated earlier, a statement of priorities. It is about so much more than numbers, revenues and expenditures. It is about real people; it's about their hopes and dreams for a better and more prosperous tomorrow.

To achieve this prosperity, however, we must address those trends that threaten to undermine our economic security. To overcome these obstacles, we must be prepared to put the interest of future generations above our own—just as parents work hard and sacrifice to see their children get ahead.

Together, we can enact reforms aimed at making Vermont a leader in the 21<sup>st</sup> Century economy, reduce health insurance costs, gain control over soaring property taxes, create more affordable housing, and put a college education within reach of every Vermonter.

We must take these steps now to secure the prosperity of future generations—we must act now to build generations of opportunity.

I believe that each new generation of Vermonters should enjoy a better and more prosperous life than the generation that came before—that is the Promise of Vermont.

Thank you.

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